



CAPRICORN DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Mayoral committee

Executive Mayor

Councillors

Mpe MJ

Mohale MM (Speaker)

Masoga MC(Chief whip)

Mokobodi MM (MMC : Infrastructure Services)

Boloka MP(MMC : Finance)

Kgare MB (MMC : Community Services)

Malebana CWD (MMC : Developmental Planning and Environmental Management Services)

Masubelele JA (MMC : Strategic Executive Management Services)

Selamolela MS (MMC : Local Economic Development)

Kgatla KE (MMC : Sports, Arts and Culture)

Sivhabu NA (MMC: Corporate Services)

Masoga PS (Chairperson : Committee of Chairpersons)

Motjopi S (Chairperson : Ethics, Rules and Integrity Committee)

Molepo FJ (Chairperson : Infrastructure Services Portfolio Committee)

Morotoba NL (Chairperson : Community Services Portfolio Committee)

Mothata ML (Chairperson : Strategic Executive Management Services Portfolio Committee)

Phoshoko MS (Chairperson : Finance Portfolio Committee)

Ledwaba PE (Chairperson : Corporate Services Portfolio Committee)

Masekwameng MR (Chairperson : Development Planning and Environmental Management Portfolio Committee)

Makgato MP (Chairperson : Municipal Public Accounts Committee)

Baloyi RA (Member)

Botha AH (Member)

Dikgale SJ (Member)

Hlangwane KV (Member)

Hopane TE (Member)

Kgokolo RD (Member)

Khan N (Member)

Kubheka DO (Member)

Legodi NJ (Member)

Lehong MV(Member)

Mabena KL(Member)

Mabote MG(Member)

Makgahlela MB(Member)

Makola J (Member)

Maleka ME (Member)

Malema RR (Member)

Mapakela MM (Member)

Mashangoane PR (Member)

Mathabatha TP (Member)

Moabelo ML (Member)

Modiba MS(Member)

Modiba MT (Member)

Mogashoa ME (Member)

Mogale TJ(Member)

Molokomme MM (Member)

Mothiba ML (Member)

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

	Mosena DD (Member) Mothata LS (Member) Motolla MO (Member) Phoshoko NC (Member) Pretorious M (Member) Rakimana PT (Member) Ramaloko SE (Member) Sekgobela M (Member) Sesera MC (Member) Setjie ND (Member)
Grading of local authority	Category B - Grade 5
Chief Finance Officer (CFO)	Thabo Nonyane
Accounting Officer	Karelse Nokuthula
Registered office	41 Biccard Street Polokwane 0700
Business address	41 Biccard Street Polokwane 0700
Postal address	PO Box 4100 Polokwane 0700
Bankers	FNB (Primary bank account)
Auditors	Auditor - General
Telephone number	015 294 1000
Fax number	015 291 4297
Email address	info@cdm.org.za

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
RRAMS	Rural Roads Asset Management System
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
WSIG	Water Services Infrastructure Grant
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant

Annual Financial Statements for the year ended 30 June 2020

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2020, as set out in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 17 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year ended to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Karelse Nokuthula
Municipal Manager

PUPN

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in local government activities, which include planning and promotion of integrated development plan and supplying of the services to the community which are water, sanitation, fire and environmental health services.

Net surplus of the municipality was R 354 314 652 (2019: surplus R 223 292 811).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 3 045 833 175 and that the municipality's total assets exceed its liabilities by R 3 045 833 175.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Due to the provision on financial and other recourses on a special adjustment budget as well as in future budgets to contain the COVID-19 pandemic effectively our, Municipality had no significant financial loss at 30 June 2020.

Continued assessments will be performed to ensure that the COVID-19 pandemic demands are met without interruptions in service delivery.

3. Subsequent events

The government has declared the State of Disaster for COVID 19 pandemic with effect from the 26 March 2020. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains in progress at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as financial impact on current and future periods since the period of national state of disaster is extended to 15 November 2020.

The COVID 19 pandemic will however not result in the adjusting events as all the expenditures incurred will be reported in the financial year in which they occurred.

Since 30 June 2020, the spread of COVID-19 and subsequent implementation of the National Lockdown, in terms of section 27(2) of the Disaster Management Act of 2002, has severely impacted the South African economy. Businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses countrywide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Government and central bank have responded with monetary and fiscal interventions to stabilise economic conditions.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.


Karelse Nkuthula
Municipal Manager

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	4	3 272 887	4 192 675
Receivables from non-exchange transactions	3	31 569 311	23 237 157
VAT receivable	6	4 519 654	8 464 349
Prepayments	5	3 204 938	3 290 106
Receivables from exchange transactions	14	47 294 237	43 808 215
Cash and cash equivalents	2	360 786 777	256 567 347
		450 647 804	339 559 849
Non-Current Assets			
Property, plant and equipment	7	2 845 760 386	2 523 341 997
Intangible assets	8	2 578 121	5 522 000
		2 848 338 507	2 528 863 997
Total Assets		3 298 986 311	2 868 423 846
Liabilities			
Current Liabilities			
Finance lease obligation	12	-	1 948 162
Operating lease liability	13	283 207	212 296
Payables from exchange transactions	10	158 429 825	116 880 591
Employee benefit obligation	9	12 810 188	11 345 666
Unspent conditional grants and receipts	11	28 856 868	-
		200 380 088	130 386 715
Non-Current Liabilities			
Employee benefit obligation	9	52 773 048	46 518 617
Total Liabilities		253 153 136	176 905 332
Net Assets		3 045 833 175	2 691 518 514
Accumulated surplus		3 045 833 175	2 691 518 514

* See Note 35

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	37	71 288 454	70 928 518
Other income	39	439 834	693 511
Interest received - investment	41	28 703 486	29 477 893
Interest received - outstanding debtors	41	14 110 448	18 038 581
Total revenue from exchange transactions		114 542 222	119 138 503
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	38	974 352 060	858 788 000
Donations	49	546 000	-
Total revenue from non-exchange transactions		974 898 060	858 788 000
Total revenue	15	1 089 440 282	977 926 503
Expenditure			
Employee related costs	16	(320 370 491)	(296 726 427)
Remuneration of councillors	17	(15 155 157)	(14 190 445)
Depreciation and amortisation	19	(73 898 366)	(69 677 153)
Finance costs	21	(109 850)	(298 878)
Lease rentals on operating lease	43	(5 198 995)	(5 717 710)
Debt Impairment	40	(46 676 508)	(44 550 196)
Commission expense	18	(25 670 499)	(26 690 129)
Bulk purchases	22	(72 282 067)	(63 918 892)
Contracted services	44	(106 852 048)	(120 452 551)
Transfers and Subsidies	23	(2 663 158)	(3 030 658)
Loss on disposal of assets and liabilities	47	(159 755)	(427 740)
Impairment Loss	34	(9 620 006)	(9 873 651)
Derecognition of assets	20	-	(39 609 385)
General Expenses	31	(56 468 730)	(59 469 877)
Total expenditure		(735 125 630)	(754 633 692)
Surplus for the period		354 314 652	223 292 811

* See Note 35

TCPN

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 554 477 226	2 554 477 226
Adjustments		
Prior year adjustments (Note 36)	(86 251 523)	(86 251 523)
Balance at 1 July 2018 as restated*	2 468 225 703	2 468 225 703
Changes in net assets		
Surplus for the year	223 292 811	223 292 811
Total changes	223 292 811	223 292 811
Restated* Balance at 1 July 2019	2 691 518 523	2 691 518 523
Changes in net assets		
Surplus for the year	354 314 652	354 314 652
Total changes	354 314 652	354 314 652
Balance at 30 June 2020	3 045 833 175	3 045 833 175

* See Note 35

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Income received from service charges and other income		36 860 784	11 497 347
Grants		974 352 060	858 416 199
Interest received- external investments		28 703 486	29 477 893
		1 039 916 330	899 391 439
Payments			
Employee costs		(327 806 695)	(303 717 520)
Suppliers		(201 915 769)	(286 855 025)
Finance costs		(109 850)	(298 878)
		(529 832 314)	(590 871 423)
Net cash flows from operating activities	25	510 084 016	308 520 016
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(403 474 443)	(324 508 824)
Purchase of other intangible assets	8	(441 986)	-
Net cash flows from investing activities		(402 606 638)	(324 508 824)
Cash flows from financing activities			
Finance lease payments		(1 948 162)	(1 759 134)
Net increase/(decrease) in cash and cash equivalents		104 219 430	(17 747 944)
Cash and cash equivalents at the beginning of the year		256 567 347	274 315 291
Cash and cash equivalents at the end of the year	2	360 786 777	256 567 347

* See Note 35

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	68 027 000	4 321 000	72 348 000	71 288 454	(1 059 546)	
Other income	1 344 000	-	1 344 000	439 834	(904 166)	46
Interest received - investment	27 452 000	90 000	27 542 000	28 703 486	1 161 486	
Interest received - outstanding debtors	-	-	-	14 110 448	14 110 448	46
Total revenue from exchange transactions	96 823 000	4 411 000	101 234 000	114 542 222	13 308 222	

Revenue from non-exchange transactions

Transfer revenue

Government grants & subsidies	932 717 000	114 685 928	1 047 402 928	974 352 060	(73 050 868)	46
Donations	-	-	-	546 000	546 000	46
Total revenue from non-exchange transactions	932 717 000	114 685 928	1 047 402 928	974 898 060	(72 504 868)	
Total revenue	1 029 540 000	119 096 928	1 148 636 928	1 089 440 282	(59 196 646)	

Expenditure

Personnel	(312 371 000)	(10 413 000)	(322 784 000)	(320 370 491)	2 413 509	
Remuneration of councillors	(15 467 000)	177 000	(15 290 000)	(15 155 157)	134 843	
Depreciation and amortisation	(65 626 000)	(9 072 000)	(74 698 000)	(73 898 366)	799 634	
Finance costs	(470 000)	360 000	(110 000)	(109 850)	150	
Lease rentals on operating lease	(6 875 000)	1 675 000	(5 200 000)	(5 198 995)	1 005	
Debt impairment	(9 103 000)	(37 574 000)	(46 677 000)	(46 676 508)	492	
Commission expense	(45 318 000)	19 647 000	(25 671 000)	(25 670 499)	501	
Bulk purchases	(85 428 000)	13 145 072	(72 282 928)	(72 282 067)	861	
Contracted Services	(174 556 000)	39 966 000	(134 590 000)	(106 852 048)	27 737 952	46
Transfers and Subsidies	(3 000 000)	-	(3 000 000)	(2 663 158)	336 842	46
General Expenses	(67 818 000)	10 281 000	(57 537 000)	(56 468 730)	1 068 270	
Total expenditure	(786 032 000)	28 192 072	(757 839 928)	(725 345 869)	32 494 059	
Operating surplus	243 508 000	147 289 000	390 797 000	364 094 413	(26 702 587)	
Loss on disposal of assets and liabilities	-	-	-	(159 755)	(159 755)	46
Impairment loss	-	(17 065 000)	(17 065 000)	(9 620 006)	7 444 994	46
	-	(17 065 000)	(17 065 000)	(9 779 761)	7 285 239	
Surplus for the year	243 508 000	130 224 000	373 732 000	354 314 652	(19 417 348)	

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	4 462 304	-	4 462 304	3 272 887	(1 189 417)	46
Receivables from non-exchange transactions	27 138 970	-	27 138 970	31 569 311	4 430 341	46
VAT receivable	-	-	-	4 519 654	4 519 654	46
Prepayments	-	-	-	3 204 938	3 204 938	46
Receivables from exchange transaction	115 199 696	-	115 199 696	47 294 237	(67 905 459)	46
Cash and cash equivalents	123 666 478	-	123 666 478	360 786 777	237 120 299	46
	270 467 448	-	270 467 448	450 647 804	180 180 356	

Non-Current Assets

Property, plant and equipment	2 687 244 525	-	2 687 244 525	2 845 760 386	158 515 861	
Intangible assets	8 014 830	-	8 014 830	2 578 121	(5 436 709)	46
	2 695 259 355	-	2 695 259 355	2 848 338 507	153 079 152	
Total Assets	2 965 726 803	-	2 965 726 803	3 298 986 311	333 259 508	

Liabilities

Current Liabilities

Operating lease liability	-	-	-	283 207	283 207	46
Payables from exchange transactions	114 369 850	-	114 369 850	158 429 813	44 059 963	46
Employee benefit obligation	11 954 013	-	11 954 013	12 810 188	856 175	
Unspent conditional grants and receipts	-	-	-	28 856 868	28 856 868	46
	126 323 863	-	126 323 863	200 380 076	74 056 213	

Non-Current Liabilities

Employee benefit obligation	32 629 682	-	32 629 682	52 773 048	20 143 366	46
Total Liabilities	158 953 545	-	158 953 545	253 153 124	94 199 579	
Net Assets	2 806 773 258	-	2 806 773 258	3 045 833 187	239 059 929	

Net Assets

Accumulated surplus	2 806 773 258	-	2 806 773 258	3 045 833 187	239 059 929	
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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Income received from service charges and other income	8 146 700	-	8 146 700	36 860 784	28 714 084	46
Grants	932 627 000	-	932 627 000	974 352 060	41 725 060	46
Interest income	27 542 000	-	27 542 000	28 703 486	1 161 486	
	968 315 700	-	968 315 700	1 039 916 330	71 600 630	
Payments						
Employee costs	(327 838 000)	-	(327 838 000)	(327 806 695)	31 305	
Suppliers	(379 995 000)	(360 000)	(380 355 000)	(199 252 611)	181 102 389	46
Finance costs	(470 000)	360 000	(110 000)	(109 850)	150	
Transfers and grants	(3 000 000)	-	(3 000 000)	(2 663 158)	336 842	46
	(711 303 000)	-	(711 303 000)	(529 832 314)	181 470 686	
Net cash flows from operating activities	257 012 700	-	257 012 700	510 084 016	253 071 316 25	
Cash flows from investing activities						
Purchase of property, plant and equipment	(309 134 000)	-	(309 134 000)	(403 474 443)	(94 340 443)	46
Purchase of other intangible assets	-	-	-	(441 986)	(441 986)	46
Net cash flows from investing activities	(309 134 000)	-	(309 134 000)	(403 916 429)	(94 782 429)	
Cash flows from financing activities						
Finance lease payments	-	-	-	(1 948 162)	(1 948 162)	46
Net increase/(decrease) in cash and cash equivalents	(52 121 300)	-	(52 121 300)	104 219 425	156 340 725	
Cash and cash equivalents at the beginning of the year	180 328 000	-	180 328 000	256 567 347	76 239 347	
Cash and cash equivalents at the end of the year	128 206 700	-	128 206 700	360 786 772	232 580 072	

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 Standards, amendments to standards and interpretations

The following GRAP standards have been issued but are not yet effective. An effective date is yet to be determined by the Minister

No.	Title of Standard	Impact on GRAP Reporting Framework
GRAP 36	Investment in Associates and Joint Ventures	No material impact
GRAP 37	Joint Arrangements	No material impact
GRAP 38	Disclosure of interest in other entities	No material impact
GRAP 110	Living and Non Living Resources	No material impact
GRAP 18	Segment Reporting	No material impact
GRAP 34	Separate Financial Statements	No material impact
GRAP 35	Consolidated Financial Statements	No material impact

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Buildings	10-55
Furniture and fixtures	5-13
Motor vehicles	
• Specialised services	5-17
• Other vehicles	5-17
Machinery and equipment	5-17
IT equipment	5-20
Computer software	5-13
Infrastructure	
• Roads and paving	15-50
Community	
• Buildings	10-55
• Security	3-10
Other equipment	
• Copiers	3-6
• Telephones	3-6
• Emergency Equipment	5-8
Communication equipment	3-6
Leased Assets	
• Office Equipment	1-10
Wastewater network	
• Sewerage	15-50
Water network	
• Water maintenance and purification	15-55
• Water reservoir	30-55

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement - cost

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Work in progress

Construction work in progress is recognised at cost and transferred to asset upon completion. Construction work in progress is not depreciable until after it is transferred to completed assets.

1.7 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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1.7 Impairment of non-cash-generating assets (continued)

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Reversal of an Impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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1.7 Impairment of non-cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Intangible assets

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale
- it is technically feasible to complete the intangible asset
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement -cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software

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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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Accounting Policies

1.8 Intangible assets (continued)

Website costs

The municipality has a website designed for internal and external access. The municipality is at the operating stage which comprises maintaining and enhancing applications, infrastructure, graphical design and the content of the file. The municipality incurs internally generated costs on the operation of the website and the costs are therefore expensed.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the weighted average cost .

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Initial recognition

Inventories assets in the form of materials or supplies to be consumed or distributed in the rendering of service. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date.

Consumable inventory is valued using the weighted average cost whilst water inventory is valued using the weighted average cost method.

Subsequent measurement

Inventories, consisting of consumable stores and raw materials, are valued at the weighted average cost, unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in weighted average cost or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.10 Financial Instruments

Classification

Financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

Financial instruments comprise of financial assets and liabilities in accordance with GRAP 104.

Capricorn District Municipality

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Accounting Policies

1.10 Financial instruments (continued)

A financial asset is cash; a residual interest of another municipality; or a contractual right to receive cash or another financial asset from another municipality or exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A residual interest is any contract that entitles the holder to an interest in the assets of an municipality after deducting all of its liabilities (i.e. net assets).

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another municipality; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Financial instruments, depending on its category, are initially measured at fair value, cost or amortised costs in accordance with GRAP 104. Transaction costs are only included in financial instruments that are initially measured at amortised costs.

Initial recognition and measurement

Financial instruments classified at fair value (fair value measurement considerations).

The best evidence of fair value is a quoted price in an active market.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, broker, dealer, etc., and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Short-term receivables and payables with no stated interest rate is be measured at the original invoice amount if the effect of discounting is immaterial.

Where there is no active market, the fair value is determined using a valuation technique such as;

- Additional textrecent arm's length market transaction;
- if available, reference to the current fair value of another instrument that is substantially the same;
- discounted cash flow analysis, discounting the future receipts (payments) of a financial instrument over the period of the contract, by using a market interest rate (adjusted for credit risk), to its present value.

Financial instruments classified at cost

If the fair value of a financial instrument cannot be reliably measured, it is measured at cost.

Financial assets at fair value are subsequently measured by using the fair value measurement considerations.

Any gains or losses due to changes in fair market value during the period are reported as gains or losses in the statement of financial performance, because such investments will usually be sold in the near future at their market value.

This effective interest rate method is used for these financial instruments. The interest rate used is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount recognised at initial recognition. The rate is then applied to the carrying amount at each reporting date to determine the interest expense or revenue for the period

Financial instruments classified at amortised cost

For financial instruments measured at amortised cost, the interest expense (for financial liabilities) or revenue (for financial assets) is calculated by using the effective interest rate method. The interest rate used is equal to the prevailing rate of return for financial instruments having substantially the same terms and characteristics of the municipality's financial instrument which include:

- the credit quality;
- the remaining term over which the contractual interest rate is fixed;
- the remaining period to repayment of the principal; and
- the currency (if applicable).

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Capricorn District Municipality

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Accounting Policies

1.10 Financial Instruments (continued)

Subsequent measurement

Impairment and uncollectability of financial assets

At the end of each reporting period, the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Impairment and uncollectability of financial assets

If there is objective evidence that an impairment loss on a financial asset has occurred, the loss must be recognised in surplus or deficit. Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

(a) Significant financial difficulty experienced by the borrower/debtor;

- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The municipality would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
 - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
 - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)

(b) A municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), a municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The carrying amount of a financial asset is reduced directly through the use of an allowance account. The impairment loss is recognised in the statement of financial performance.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Receivables from exchange transactions

Trade and other receivables are initially designated at fair value.

Short-term receivables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

Payables from exchange transactions

Financial liabilities consist of trade payables. They are categorised as financial liabilities held at fair value.

Short-term payables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

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Accounting Policies

1.10 Financial instruments (continued)

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Gains and losses

Gains or losses can arise from both a financial asset and financial liability measured at fair value, at amortised cost or cost. Any gains and losses are recognised in the statement of financial performance.

Fair value - Changes in fair value will result in either a gain or loss.

Amortised costs and cost - gains and losses are recognised when derecognised, impaired or through the amortisation process.

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all the risks and rewards of the ownership of the asset; or
The municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the that party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

If the municipality has not transferred substantially all of the risks and rewards of ownership of the financial asset, it should continue to recognise the asset.

Financial liabilities

The municipality derecognises a financial liability only when:

- Discharges the liability (or part thereof) by paying the creditor, normally with cash, other financial liabilities, goods or services;
- Waives the debt or it is assumed by another entity by way of a non-exchange transaction. These transactions are accounted for by considering the requirements in GRAP 104 and GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers).
- Is legally released from primary responsibility for the liability (o part of it) either by process of law (expires) or by the creditor (cancelled). If the debtor has given a guarantee, this condition may still be met; or

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

Capricorn District Municipality

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Accounting Policies

1.10 Financial Instruments (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Offsetting

Financial assets and liabilities are off-set and the net amount reported in the statement of financial position when there is a legally enforceable right to off-set the recognised amount, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. The identified unauthorised expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. The identified irregular expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. The identified fruitless and wasteful expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

1.14 Provisions and Contingents

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

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Accounting Policies

1.14 Provisions and Contingents (continued)

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- when the plan will be implemented; and

The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Capricorn District Municipality

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1.16 Revenue from non-exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest Income

Revenue arising from the use by others of municipal assets yielding interest shall be recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably. Interest shall be recognised on a time basis that takes into account the effective yield of interest.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Capricorn District Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18 Events after reporting date

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Balance Sheet date. Events after the Balance Sheet date that are indicative of conditions that arose after the Balance Sheet date are dealt with by way of a note to the Financial Statements.

1.19 Commitments

A commitment arises when a decision is made to incur a liability e.g. purchase order, delivery schedules or contract for construction of infrastructure assets. A commitment becomes a liability when the intention to agree to an outflow of resources outflow of resources becomes a present obligation.

The commitments are not recognised as a liability in the statement of financial position but are disclosed in the notes to the financial statements.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.20 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.20 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Long term service awards and accumulated leave days

Long term service

Employees qualify for additional leave for various period of uninterrupted service in accordance with SALGBC condition of service. The long term service award measured in accordance with GRAP 25 through an actuarial valuation.

Accumulated leave days

Accumulated leave benefit accrues to employees unto maximum of 48 leave days. The benefits are paid in the events of death, disability, retrenchment or/and retirement. Employees who have leave days in excess of the 48 days for periods, before the conditions of service came to effect, are measured in accordance with GRAP 25 through an actuarial valuation.

1.21 Change in accounting policy, accounting estimates and prior period errors

Change in accounting estimate

Change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. Any changes to the relevant financial items (associated with assets and liabilities) are made prospectively.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.21 Change in accounting policy, accounting estimates and prior period errors (continued)

Change in accounting policy

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an municipality in preparing and presenting financial statements. Any changes to these policies arising from new or amended GRAP standards will be applied either retrospectively or prospectively if transitional provisions exist.

Prior period errors

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that;

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

A prior period error is corrected by retrospective restatement, except to the extent that it is impracticable to determine the period-specific or cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

1.22 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.23 Budget information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

The annual budget figures included in the financial statements are for the Municipality and these figures are those approved by the Council at the beginning and during the year.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury and requirements of GRAP 25.

1.24 Value added tax

VAT is accounted for on an accrual basis and registered for on the cash basis.

1.25 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the municipality would suffer an additional deficit of - in its 2020 annual financial statements, being a reclassification adjustment of the fair value adjustments previously recognised in other comprehensive income and accumulated in equity on the impaired available-for-sale financial assets to surplus or deficit.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.25 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.25 Significant judgements and sources of estimation uncertainty (continued)

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.26 Commission expense

Commission expense is accounted for on an accrual basis.

1.27 Distribution loss

Distribution losses are losses that result from differences between purchases and consumptions both billed and estimated.

1.28 Prepayments

Prepaid expenses are initially recorded as assets, and their value is expensed over time onto the statement of financial performance.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
First National Bank (Primary Bank Account)	1 452 712	1 504 446
Investment Accounts	359 321 533	255 042 063
Cash on hand	12 532	20 838
	360 786 777	256 567 347

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
FNB BANK - Current Account - 620-055-56339	1 445 291	1 504 446	1 452 711	1 504 446

Summary of investments held

First National Bank - Call Account	509 660	323 422
Nedbank Deposit Account	135 541 003	72 487 392
First National Bank - Fixed Deposit 1	149 692 888	50 059 589
Standard Bank Call	73 577 982	132 151 337
ABSA		20 325
	359 321 533	255 042 065

Included in investment is a guarantee to Eskom amounting to R294 600

Guarantee	294 600	294 600
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3. Receivables from non-exchange transactions

Receivables from non-exchange revenue	33 872 636	25 552 482
Provision - Receivables from non-exchange revenue	(2 303 325)	(2 315 325)
	31 569 311	23 237 157

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	2 315 325	2 327 325
Reversal of impairment	(12 000)	(12 000)
	2 303 325	2 315 325

Included in receivables from non-exchange transactions

Local Municipalities-Unspent Grants	1 335 709	998 868
Blouberg Municipality - Refunds for water payments	2 812 863	1 830 431
Molemole Municipality - Refunds for water payments	742 017	983 031
Lepelle Nkumpi Municipality - Refunds for water payments	27 537 847	15 426 422
Other debtors	1 444 200	6 313 730
	33 872 636	25 552 482

4. Inventories

Consumable stores	543 389	448 605
Maintenance materials	2 489 304	3 571 371
Water for distribution	240 194	172 699
	3 272 887	4 192 675

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Inventories (continued)		
Inventories recognised as an expense during the year	79 050 968	70 871 391
No inventories were pledged as collateral.		
5. Prepayments		
Prepaid expenses	3 204 938	3 290 106

Advanced payment was made to SALGA for 2020/21 membership fees 2020: R3 204 938 (2019: R3 290 106).

6. VAT receivable

VAT	4 519 654	8 464 349
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VAT is accounted for on an accrual basis and registered for on the cash basis.

7. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 407 500	-	12 407 500	11 861 500	-	11 861 500
Plant and machinery	18 169 501	(8 632 386)	9 537 115	15 585 819	(6 928 655)	8 657 164
Furniture and fixtures	13 753 349	(7 909 869)	5 843 480	11 667 550	(6 612 932)	5 054 618
Motor vehicles	62 411 031	(30 330 041)	32 080 990	62 734 979	(26 363 276)	36 371 703
IT equipment	16 772 032	(6 508 340)	10 263 692	15 920 160	(5 012 277)	10 907 883
Infrastructure	2 511 943 646	(592 388 447)	1 919 555 199	2 403 501 842	(525 003 886)	1 878 497 956
Community	87 821 885	(29 956 188)	57 865 697	84 701 608	(27 417 989)	57 283 619
Assets under construction	798 206 713	-	798 206 713	512 942 307	-	512 942 307
Leased Assets	5 295 742	(5 295 742)	-	5 295 742	(3 530 495)	1 765 247
Total	3 526 781 399	(681 021 013)	2 845 760 386	3 124 211 507	(600 869 510)	2 523 341 997

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	11 861 500	-	-	546 000	-	-	-	-	12 407 500
Plant and machinery	8 657 164	2 583 682	-	-	-	-	(1 703 731)	-	9 537 115
Furniture and fixtures	5 054 618	2 085 799	-	-	-	-	(1 296 937)	-	5 843 480
Motor vehicles	36 371 703	-	(159 755)	-	-	-	(4 130 958)	-	32 080 990
IT equipment	10 907 883	851 872	-	-	-	-	(1 496 063)	-	10 263 692
Infrastructure	878 497 956	25 678 151	-	-	82 580 465	-	(57 735 741)	(9 465 632)	1 919 555 199
Community	57 283 619	2 254 799	-	-	865 478	-	(2 383 825)	(154 374)	57 865 697
Assets under construction	512 942 307	368 710 349	-	-	(83 445 943)	-	-	-	798 206 713
Leased Assets	1 765 247	-	-	-	-	-	(1 765 247)	-	-
	2 523 341 997	402 164 652	(159 755)	546 000	-	-	(70 512 502)	(9 620 006)	2 845 760 386

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	11 861 500	-	-	-	-	-	-	-	11 861 500
Plant and machinery	7 371 644	2 695 116	-	-	-	-	(1 409 596)	-	8 657 164
Furniture and fixtures	6 075 066	115 744	-	-	-	-	(1 136 192)	-	5 054 618
Motor vehicles	33 729 745	7 158 267	(789 419)	-	-	-	(3 726 890)	-	36 371 703
IT equipment	10 119 811	2 118 593	(35 793)	-	-	-	(1 294 728)	-	10 907 883
Infrastructure	1 699 571 394	38 623 274	-	-	203 536 327	-	(53 501 707)	(9 731 332)	1 878 497 956
Community	49 570 082	226 227	-	-	9 801 782	-	(2 172 153)	(142 319)	57 283 619
Assets under construction	490 405 678	275 484 123	-	-	(213 338 109)	(39 609 385)	-	-	512 942 307
Leased Assets	3 530 464	-	-	-	-	-	(1 765 217)	-	1 765 247
	2 312 235 384	326 421 344	(825 212)	-	-	(39 609 385)	(65 006 483)	(9 873 651)	2 523 341 997

No property, plant and equipments are pledged as collaterals.

As at 30 June 2020 a total of R 42 839 706 is for assets which are still under construction and are taking longer to complete.

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

8. Intangible assets

	2020		2019			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	24 604 511	(22 026 390)	2 578 121	24 162 525	(18 640 525)	5 522 000

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	5 522 000	441 986	-	(3 385 865)	2 578 121

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	10 192 668	-	-	(4 670 668)	5 522 000

9. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The accumulated defined benefit obligation in respect of the post-retirement medical contributions are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
9. Employee benefit obligations (continued)		
Movement in the employee health-care liability		
Liability as at 1 July	4 222 000	4 122 000
Benefits paid	(595 307)	(357 000)
Current Service Cost		
Interest	401 000	393 000
Actuarial losses	1 716 307	64 000
	5 744 000	4 222 000
Current portion of liability	672 000	401 000
Non-current portion of liability	5 072 000	3 821 000
	5 744 000	4 222 000
Amounts recognised in the annual financial statements		
Current service cost		
Interest cost	401 000	393 000
Past service cost		
Actuarial losses/(gains)	1 716 307	64 000
	2 117 307	457 000

Sensitivity analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical aid inflation.

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	6 248 000	5 744 000	5 344 000
Interest Cost	734 000	672 000	623 000
Service Cost	-	-	-
	6 982 000	6 416 000	5 967 000

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

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Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019	
9. Employee benefit obligations (continued)			
	-1% Medical aid inflation	Valuation Assumption	+1% Medical aid inflation
Total Accrued Liability	5 301 000	5 744 000	6 250 000
Interest Cost	618 000	672 000	734 000
Service Cost	-	-	-
	5 919 000	6 416 000	6 984 000

Actuarial Loss/(Gain)

The combined Accrued Liability in respect of Post-employment medical aid liability is built-up as follows:

	Current Valuation date 30 June 2020	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
PV of the obligation as at the previous valuation date	4 222 000	5 744 000	5 910 000	6 098 000
Current Service Cost	-	-	-	-
Interest Cost	401 000	672 000	692 000	715 000
Benefits Paid	(595 307)	(506 000)	(504 000)	(499 000)
Actuarial Loss / (Gain)	1 716 307	-	-	-
	5 744 000	5 910 000	6 098 000	6 314 000

Membership Data

According to the information provided, the number of members entitled to receive postemployment medical aid subsidies from the Municipality were:

Category	30-06-2020 Valuation	30-06-2019 Valuation
Current (In Service) Members	-	-
Continuation Members (Pensioners)	7	6
	7	6

Accrued Contractual Liability

The figures below reflect the total value of the accrued contractual liability of the Municipality in respect of post-employment medical aid benefits offered to employees:

Category	30-06-2020 Valuation	30-06-2019 Valuation
Current (In Service) Members	-	-
Continuation Members (Pensioners)	5 744 000	4 222 000
	5 744 000	4 222 000

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Figures in Rand	2020	2019
9. Employee benefit obligations (continued)		
Interest and Service Costs		
Category	30-06-2020 Valuation To be used in the 30 June 2020 Actuarial Loss/(Gain) calculation	30-06-2019 Valuation To be used in the 30 June 2019 Actuarial Loss/(Gain) calculation
Interest Cost	672 000	401 000
Current Service Cost	-	-
	672 000	401 000

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post-employment Medical Aid Liabilities

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

Valuation of Assets

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Valuation Assumptions

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

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Figures in Rand	2020	2019
9. Employee benefit obligations (continued)		
Financial Variable	Assumed Value 30-06-2020 (Current Valuation)	Assumed Value 30-06-2019 (Preceding Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves CPI+1%	Difference between nominal and yield curves CPI+1%
Medical Aid Contribution Inflation	Yield curve based**	Yield curve based**
Net Effective Discount Rate		

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We used the nominal and real zero curves as at **30 June 2020** as supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

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Figures in Rand	2020	2019
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9. Employee benefit obligations (continued)

Spouses and Dependents

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Long service award

The municipality provides long-service awards to its permanent employees

The benefit of long-service awards is provided in the form of annual leave and a gift to a certain monetary value.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2020 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions.

The accumulated defined benefit obligation in respect of the long-service awards are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

Movement in the long-service award liability

Liability as at 1 July	12 836 000	11 794 000
Benefits paid	(2 181 099)	(1 736 578)
Current service cost	1 149 000	1 132 000
Interest	1 263 000	1 143 000
Actuarial losses/ (gains)	(310 901)	503 578
	12 756 000	12 836 000

Current portion of liability	2 648 000	2 412 000
Non-current portion of liability	10 108 000	10 424 000
	12 756 000	12 836 000

Expense recognised in Statement of Financial Performance

Current service cost	1 149 000	1 132 000
Interest cost	1 263 000	1 143 000
Past service cost	-	-
Actuarial losses/ (gains)	(310 901)	503 578
	2 101 099	2 778 578

Changes in the value of obligation

	Current Valuation date 30 June 2020	1 Year following the Valuation Date	2 Years following the Valuation Date	3 Years following the Valuation Date
Liability recognised in the balance sheet	12 836 000	12 756 000	12 892 000	14 269 082
Current service cost	1 149 000	1 142 000	1 234 690	1 339 827
Interest cost	1 263 000	1 506 000	1 565 392	1 616 539
Benefits paid	(2 181 099)	(2 512 000)	(1 423 000)	(3 446 000)
Actuarial Loss/ (Gain)	(310 901)	-	-	-
	12 756 000	12 892 000	14 269 082	13 779 448

Membership data

According to the information provided, the number of members entitled to receive long service leave awards from the municipality were;

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9. Employee benefit obligations (continued)			
Gender	Number of active employees	Salary weighted average age (Years)	Weighted average past service (Years)
Male	331	47,18	14,14
Female	231	43,57	12,08

Long Service Awards Liabilities

Category	30-06-2020 Valuation	30-06-2019 Valuation
Accrued liability	12 756 000	12 836 000

Interest and service costs

Category	30-06-2020 Valuation. To be used in the 30 June 2020 Actuarial Loss/(Gain) calculation	30-06-2019 Valuation. To be used in the 30 June 2019 Actuarial Loss/(Gain) calculation
Interest cost	1 506 000	1 263 000
Current service cost	1 142 000	1 149 000
	2 648 000	2 412 000

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10		4% (10/250)*Annual Salary
15		8% (20/250)*Annual Salary
20, 25, 30, 35, 40 and 45		12% (30/250)*Annual Salary

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.

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9. Employee benefit obligations (continued)

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable	Assumed Value 30-06-2020 (Current Valuation)	Assumed Value at 30-06-2019 (Preceding Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve Equal to CPI+1%	Difference between nominal and real yield curve Equal to CPI+1%
Normal Salary Increase Rate	Yield Curve Based**	Yield Curve Based**
Net Effective Discount Rate		

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We use the nominal and real zero curves as at 30 June 2020 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

* The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

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9. Employee benefit obligations (continued)

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2019 of 6.25%. The next salary increase was assumed to take place on 01 July 2021.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age band	Promotional Increase
20-24	5 %
25-29	4 %
30-34	3 %
35-39	2 %
40-44	1 %
45 and over	- %
	15 %

Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60 +	- %	- %
	59 %	80 %

Membership Data

The information below is based on the membership data received from the Municipality.

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Figures in Rand		2020	2019	
9. Employee benefit obligations (continued)				
Eligible male employees				
Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	3	168 766	3,98	4 383
30 - 39	78	308 341	6,38	18 534
40 - 49	87	371 342	9,87	32 163
50 - 59	129	274 500	19,73	15 675
60 +	34	276 047	28,20	-
	331	307 129		18 970

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	5	111 290	5,70	4 077
30 - 39	77	356 579	7,33	24 515
40 - 49	88	397 672	11,21	40 402
50 - 59	47	324 153	19,35	21 561
60 +	14	225 209	29,08	-
	231	352 365		28 038

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	8	132 844	4,88	4 192
30 - 39	155	332 304	6,89	21 505
40 - 49	175	384 582	10,57	36 306
50 - 59	176	287 760	19,61	17 247
60 +	48	261 219	28,42	-
	562	325 722		22 697

Interest Cost

The Interest Cost represents the accrual of interest on the Accrued Defined Benefit Obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment. This item should be accounted for in the Statement of profit or loss and other comprehensive income (herein after referred to as the "income statement") according to GRAP 25.

Current Service Cost

The Current Service Cost reflects the additional liability that is expected to accrue in respect of in service members' service over the corresponding year. This item should be accounted for in the income statement according to GRAP 25.

Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

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9. Employee benefit obligations (continued)

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	13 406 000	12 756 000	12 160 000
Current Service Cost	1 222 000	1 142 000	1 070 000
Interest Cost	1 590 000	1 506 000	1 429 000
	16 218 000	15 404 000	14 659 000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	12 082 000	12 756 000	13 486 000
Current Service Cost	1 069 000	1 142 000	1 222 000
Interest Cost	1 419 000	1 506 000	1 600 000
	14 570 000	15 404 000	16 308 000

Long-term leave

The municipality, in recognition of services rendered, grants employees 24 working days leave per year.

This leave is cumulative up to a limit of 48 working days.

There is no discounting applied to the calculation of the provision and the amount is based on the estimated 1 July salaries after allowing for an estimated salary increase. The provision is split between that which is expected to be taken within 12 months of the valuation date and that which will be taken after the 12 months.

Movement in the leave provision		
Liability as at 1 July	34 736 749	29 693 031
Annual leave forfeited	(185 256)	-
Net accrued leave days over the years	5 893 773	5 043 718
	40 445 266	34 736 749
Current portion of liability	2 852 218	2 463 131
Non-current portion of liability	37 593 048	32 273 618
	40 445 266	34 736 749

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9. Employee benefit obligations (continued)

Leave Days Provisional Liabilities

There is no standard actuarial formula that prescribes the way in which the accrued leave days balance should be broken down between short term and long-term components. We recommend that the municipality follow an approach that is consistent with its past experience.

No discontinuing is applied to the calculation of the annual leave provisions. The leave provision is based on the estimated 1 July 2020 salaries after allowing for an estimated salary increase of 6%. The provision is split between that which is expected to be taken within 12 months of the valuation date (short-term portion) and that which will be taken after 30 June 2020 (long-term portion)

In order to calculate the short term and long-term components of the accrued leave days provisional liability we assumed that;

1. Employees reaching the expected retirement age of 63 over the coming year would cash-in their accrued leave balances in full;
2. Employees resigning from service would cash-in their accrued leave days balances in full;
3. Other employees remaining in service would take their full 24 leave days in the coming year.

We assume that all employees will take up leave to avoid forfeiture of leave days. Employees that resign or retire over the coming will have their leave balance cashed on resignation/ retirement. We assumed 250 working days per year for the purposes of calculating the value of the accrued benefit. The current portion of the accrued leave also takes into account withdrawals from service over the next 12 months according to the table below.

Withdrawal decrements

Age band	Withdrawal Rate Males	Withdrawal Rate Females
20-24	16 %	24 %
25-29	12 %	18 %
30-34	10 %	15 %
35-39	8 %	10 %
40-44	6 %	6 %
45-49	4 %	4 %
50-54	2 %	2 %
55-59	1 %	1 %
60+	- %	- %
	59 %	80 %

Membership data

The information below is based on the membership data received from the municipality.

According to the information provided, the number of members entitled to receive leave days from the municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Average Annual Salary
Male	340	82,81	396 424
Female	231	61,31	459 426
	571		855 850

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Figures in Rand	2020	2019		
9. Employee benefit obligations (continued)				
Reconciliation for employee benefit obligations - 2020	Opening balance	Additions	Utilised during the year	Total
Performance	6 069 534	6 411 000	(5 842 564)	6 637 970
Provision for leave	34 736 748	5 708 518	-	40 445 266
Post employment medical benefits	4 222 000	2 117 307	(595 307)	5 744 000
Long service awards	12 836 000	2 101 099	(2 181 099)	12 756 000
	57 864 282	16 337 924	(8 618 970)	65 583 236
Reconciliation for employee benefit obligations - 2019				
	Opening balance	Additions	Utilised during the year	Total
Performance	5 623 486	5 936 000	(5 489 951)	6 069 535
Provision for leave	29 693 030	5 043 718	-	34 736 748
Post employment medical benefits	4 122 000	457 000	(357 000)	4 222 000
Long service awards	11 794 000	2 778 578	(1 736 578)	12 836 000
	51 232 516	14 215 296	(7 583 529)	57 864 283
Non-current liabilities			52 773 048	46 518 617
Current liabilities			12 810 188	11 345 666
			65 583 236	57 864 283

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected.

10. Payables from exchange transactions

Trade payables	54 218 838	32 454 025
Retention creditors	94 080 361	76 789 280
Other creditors	10 130 626	7 637 286
	158 429 825	116 880 591

2019, There was a reclassification of R3 280 159.67 from trade payables to other creditors.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Disaster Relief Grant	365 120	-
Municipal Infrastructure Grant(MIG)	-	-
Expanded Public Works Programme(EPWP)	481 304	-
Rural Transport Services Infrastructure Grant (RTSIG)	1 891 169	-
Water Services Infrastructure Grants (WSIG)	26 119 275	-
	28 856 868	-

Municipal infrastructure grant (MIG)		
Current year receipts	260 788 000	225 862 000
Conditions met transferred to revenue	(260 788 000)	(225 862 000)
	-	-

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Figures in Rand	2020	2019
11. Unspent conditional grants and receipts (continued)		
Finance management grant (FMG)		
Current year receipts	1 000 000	1 000 000
Conditions met transferred to revenue	(1 000 000)	(1 000 000)
	-	-
Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)		
Balance unspent at the beginning of the year	-	371 801
Current year receipts	4 340 000	3 642 000
Conditions met transferred to revenue	(3 858 696)	(3 642 000)
Funds returned to Treasury	-	(371 801)
	481 304	-
Rural transport services Infrastructure grant (RTSIG)		
Current year receipts	2 566 000	2 422 000
Conditions met transferred to revenue	(674 831)	(2 422 000)
	1 891 169	-
Water Services Infrastructure grant (WSIG)		
Current year receipts	145 000 000	78 000 000
Conditions met transferred to revenue	(118 880 725)	(78 000 000)
	26 119 275	-
Disaster relief grant		
Current year receipts	453 000	-
Conditions met transferred to revenue	(87 880)	-
	365 120	-
12. Finance lease obligation		
Minimum lease payments due		
- within one year	-	2 058 011
	-	2 058 011
less: future finance charges	-	(109 849)
Present value of minimum lease payments	-	1 948 162
Present value of minimum lease payments due		
- within one year	-	1 948 162
The municipality leased certain computer equipments (printers) under finance leases.		
The average lease term is 3 years and the average effective borrowing rate was 10% (2019: 10%).		
Interest rates are fixed at the contract date. All leases have fixed repayments and include additional charges for contingent rent based on a percentage of sales.		
Contingent rents	-	966 075
13. Operating lease accrual		
Current liabilities	(283 207)	(212 296)

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Figures in Rand	2020	2019
13. Operating lease accrual (continued)		
Future lease payments under non-cancellable operating lease:		
Rental of office buildings		
Payable within one year	4 229 814	3 285 912
Payable within two to five years	1 812 355	4 071 352
	6 042 169	7 357 264
Minimum lease payments recognised in statement of financial performance.		
Lease rentals on operating lease	5 198 995	5 717 710
14. Receivables from exchange transactions		
Gross balances		
Water	311 918 717	254 682 148
Less: Allowance for impairment		
Water	(264 624 480)	(210 873 933)
Net balance		
Water	47 294 237	43 808 215
Water		
Current (0 -30 days)	10 570 984	14 006 559
31 - 60 days	4 626 048	5 402 409
61 - 90 days	4 555 878	4 690 827
91 - 120 days	4 211 942	3 634 012
121 - 365 days	23 329 385	16 074 408
	47 294 237	43 808 215
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	10 298 126	11 457 455
31 - 60 days	5 081 335	6 367 755
61 - 90 days	5 586 465	6 006 400
91 - 120 days	5 788 294	5 064 985
121 - 365 days	254 787 672	190 393 047
	281 541 892	219 289 642
Less: Allowance for impairment	(252 706 840)	(199 895 443)
	28 835 052	19 394 199
Industrial/ commercial		
Current (0 -30 days)	782 059	2 927 599
31 - 60 days	308 292	382 948
61 - 90 days	283 529	373 184
91 - 120 days	234 034	385 420
121 - 365 days	12 322 769	13 337 188
	13 930 683	17 406 339
Less: Allowance for impairment	(11 917 640)	(10 978 490)
	2 013 043	6 427 849

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Figures in Rand	2020	2019
14. Receivables from exchange transactions (continued)		
National and provincial government		
Current (0 -30 days)	538 550	7 567 849
31 - 60 days	200 767	243 099
61 - 90 days	171 051	267 811
91 - 120 days	140 073	277 101
121 - 365 days	15 395 701	9 630 307
	16 446 142	17 986 167
Total		
Current (0 -30 days)	11 618 735	21 952 903
31 - 60 days	5 590 394	6 993 803
61 - 90 days	6 041 045	6 647 394
91 - 120 days	6 162 401	5 727 506
121 - 365 days	282 506 136	213 360 542
	311 918 711	254 682 148
Less: Allowance for impairment	(264 624 474)	(210 873 933)
	47 294 237	43 808 215
Less: Allowance for impairment		
Current (0 -30 days)	(1 047 751)	(1 376 579)
31 - 60 days	(964 347)	(1 381 265)
61 - 90 days	(1 485 167)	(1 854 038)
91 - 120 days	(1 950 459)	(2 002 150)
121 - 365 days	(259 176 756)	(204 259 901)
	(264 624 480)	(210 873 933)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(210 873 933)	(159 554 557)
Contributions to allowance	(46 739 606)	(44 825 548)
VAT on impairment	(7 010 941)	(6 693 828)
	(264 624 480)	(210 873 933)
15. Revenue		
Service charges	71 288 454	70 928 518
Other income	439 834	693 511
Interest received - investment	28 703 486	29 477 893
Interest received - outstanding debtors	14 110 448	18 038 581
Government grants & subsidies	974 352 060	858 788 000
Donations	546 000	-
	1 089 440 282	977 926 503
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	71 288 454	70 928 518
Other income	439 834	693 511
Interest received - investment	28 703 486	29 477 893
Interest received - outstanding debtors	14 110 448	18 038 581
	114 542 222	119 138 503

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Figures in Rand	2020	2019
15. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	974 352 060	858 788 000
Donations	546 000	-
	974 898 060	858 788 000
16. Employee related costs		
Basic	214 509 561	201 572 366
Bonus	20 311 680	18 959 193
Medical aid - company contributions	15 216 627	13 867 961
UIF	1 051 102	1 023 750
Long-service awards	2 412 000	2 202 980
Car allowance	19 534 294	16 530 821
Housing benefits and allowances	2 311 209	2 249 751
Actuarial Losses	1 405 406	567 578
Pension fund	34 364 569	32 103 163
	311 116 448	289 077 563
Remuneration of Municipal Manager		
Annual Remuneration	1 556 339	1 551 726
Car allowance and other allowances	146 969	146 148
Contributions to UIF, Medical and Pension Funds	34 837	27 030
	1 738 145	1 724 904
Remuneration of Chief Finance Officer		
Annual Remuneration	1 214 478	1 178 382
Car allowance and other allowances	136 836	136 836
Contributions to UIF, Medical and Pension Funds	92 870	90 163
	1 444 184	1 405 381
Remuneration of Technical Services		
Annual Remuneration	884 352	219 258
Car allowance and other allowances	256 836	-
Contributions to UIF, Medical and Pension Funds	116 917	-
	1 258 105	219 258
Remuneration of Development, Economic and Planning Management Services		
Annual Remuneration	1 112 429	909 493
Car allowance and other allowances	269 433	224 030
Contributions to UIF, Medical and Pension Funds	104 191	79 222
	1 486 053	1 212 745
Remuneration of Strategic Support Services		
Annual Remuneration	1 115 376	1 018 274
Car allowance and other allowances	196 836	180 433

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Figures in Rand	2020	2019
16. Employee related costs (continued)		
Contributions to UIF, Medical and Pension Funds	132 367	115 861
	1 444 579	1 314 568

Remuneration of Corporate Services

Annual Remuneration	910 087	882 669
Car allowance and other allowances	136 836	136 836
Contributions to UIF, Medical and Pension Funds	210 686	204 369
	1 257 609	1 223 874

Remuneration of Community Services

Annual Remuneration	556 109	521 438
Car allowance and other allowances	53 933	10 292
Contributions to UIF, Medical and Pension Funds	15 326	16 403
	625 368	548 133

Total employee related costs	320 370 491	296 726 426
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2019, An amount of R4 178 732.72 was reclassified from basic salary to bonuses due to incorrect classification of accounts on the trial balance.

Performance bonuses for Senior Management were paid as follows

Municipal Manager	70 174	32 006
Chief Financial Officer	53 313	24 297
Strategic Support Services	48 633	53 121
Corporate Services	14 376	6 546
Development, Economic and Planning Management Services	39 235	-
Community Services	24 600	-
	250 331	115 970

2019, An amount of R4 178 732.72 was reclassified from basic salary to bonuses due to incorrect classification of accounts on the trial balance.

17. Remuneration of councillors

Executive Mayor	1 104 636	1 063 893
Chief Whip	829 646	799 445
Mayoral Committee Members	4 795 071	4 340 962
Speaker	881 997	837 877
Councillors	4 945 516	4 617 894
Councillors' pension and medical aid contribution	440 867	396 825
Councillors' allowances	1 667 640	1 650 703
Section 79 Committee	489 784	482 846
	15 155 157	14 190 445

The salaries, allowances and benefits of political office-bearers and councillors of the municipality, are within the upper limits of the framework envisaged in section 219 of the Constitution read with the Remuneration of Public Office Bearers Act (Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

Capricorn District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
17. Remuneration of councillors (continued)		
In-kind benefits		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has two full-time bodyguards.		
18. Commission Expense		
Commission is paid to local municipality for the management of water related services.		
Collection costs	25 670 499	26 690 129
19. Depreciation and amortisation		
Property, plant and equipment	70 512 501	65 006 485
Intangible assets	3 385 865	4 670 668
	73 898 366	69 677 153
20. Derecognition of Assets		
Derecognition of assets	-	39 609 385
2019 - These relate to Aganang water projects which were under construction at the time of the demarcation date on the 10th August 2016. These assets were transferred to Polokwane Municipality directly from work in progress.		
21. Finance costs		
Finance, other interest and penalties	109 850	298 878
22. Bulk purchases		
Water	72 282 067	63 918 892
23. Grants and subsidies paid		
Grants paid to local municipalities	2 663 158	3 030 658
24. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	343 461 177	274 698 644
Total capital commitments		
Already contracted for but not provided for	343 461 177	274 698 644

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Commitments (continued)		
This expenditure will be financed from		
Government grants - conditional	342 289 557	259 398 138
Equitable share grant	1 171 621	15 300 506
	343 461 178	274 698 644
Authorised operational expenditure		
Already contracted for but not provided for		
• Infrastructure	5 813 066	15 690 985
• Community	-	2 200
• Other	27 142 392	45 665 590
	32 955 458	61 358 775
Total operational commitments		
Already contracted for but not provided for	32 955 458	61 358 775
This expenditure will be financed from		
Government grants - conditional	5 813 066	15 690 985
Equitable share grant	27 142 392	45 667 790
	32 955 458	61 358 775
Total commitments		
Total commitments		
Authorised capital expenditure	343 461 177	274 698 644
Authorised operational expenditure	32 955 458	61 358 775
	376 416 635	336 057 419
This expenditure will be financed from		
Government grants - conditional	348 102 622	275 089 123
Equitable share grant	28 314 013	60 968 296
	376 416 635	336 057 419

Commitments disclosed are inclusive of value added tax where applicable.

25. Cash generated from operations

Surplus	354 314 652	223 292 811
Adjustments for:		
Depreciation and amortisation	73 898 366	69 677 153
Loss on disposal of assets	159 755	427 740
Impairment loss	9 620 006	9 873 651
Finance costs - Finance leases	109 850	-
Debt impairment	46 676 508	44 550 196
Movements in operating lease accruals	70 911	72 034
Movements in retirement benefit assets and liabilities	7 718 953	6 631 766
Derecognition of assets	-	39 609 385
Long service awards	7 718 953	7 199 344
Changes in working capital:		
Inventories	916 825	1 450 629
Trade receivables	(65 556 723)	(76 064 684)
Prepayments	85 168	(478 524)
Payables from exchange transactions	41 549 229	(39 922 150)
VAT	3 944 695	22 572 466

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Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in: Rand	2020	2019
25. Commitments (continued)		
Unspent conditional grants and receipts	28 856 868	(371 801)
	510 084 016	308 520 016

26. Fruitless and wasteful expenditure

Opening balance as previously reported	949 778	1 333 347
Opening balance	949 778	1 333 347
Add: Expenditure identified - current	108 285	19 762
Less: Amount written off by service provider	-	(403 331)
Closing balance	1 058 063	949 778

2020 - Penalties charged by SARS

2019 - Penalties charged by SARS

27. Irregular expenditure

Opening balance as previously reported	47 084 193	43 730 509
Prior year adjustment	-	(750 608)
Opening balance restated	47 084 193	42 979 901
Add: Expenditure identified - current	3 354 702	4 116 292
Less: Amounts recovered	-	(12 000)
Less: Amount written off	(49 811 637)	-
Closing balance	627 258	47 084 193

2020 - The irregular expenditure relates to 2017/18 payment of employees after resignation (MM Makgoppe, MH Latakomo, LP Malebana, PE Raphila)

2019 - The irregular expenditure is as a result of payment of repairs and maintenance.

28. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	3 290 109	2 811 582
Current year subscription	(3 290 109)	(2 811 582)
Amount paid - current year	3 204 938	3 290 109
	3 204 938	3 290 109

The amount of R3 204 938 is paid in advance as a result of discounts given for early payment.

Audit fees payable

Current year fee	3 461 767	3 230 029
Amount paid - current year	(3 448 442)	(3 230 029)
	13 325	-

PAYE, UIF and SDL payable

Opening balance	60 954 084	55 248 140
Current year fee	(60 954 084)	(55 248 140)
Amount paid - current year	-	-

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension, UIF and medical aid deductions payable		
Opening balance	-	-
Current year subscription	51 780 359	48 802 489
Amount paid - current year	(51 780 359)	(48 802 489)
	-	-

Arrear consumer account: Councillors

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020		
Councillor Kgweedi MM	1 422	673
Councillor Doubada NM	44 897	22 257
Councillor Ramokolo MM	1 241	-
Councillor Choong CM	1 594	-
Councillor Mollo MI	535	291
Councillor Ramalebana L.M	28 977	-
	78 666	23 221

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Replace an ION chromatography separation columns and guard columns - Sole Provider	26 412	-
Jaws softwares (screen reading for visually impaired) - Sole Provider	15 040	-
Educational Support Management Pax College - Impractical to follow procurement process.	150 000	-
Cultural groups for District Heritage Celebrations - Special work of art	8 000	-
SANAS accredited Proficiency Testing Scheme - Sole Provider	33 049	-
SANAS accredited Proficiency Testing Scheme - Sole provider	19 895	-
Repairing and maintenance of meter reading scanners - Impractical to follow the SCM processes	8 050	-
Delivery of Systems- Microsoft Office - Sole provider	2 304 549	-
AFS Quality Reviewer - Impractical to follow procurement process.	-	69 000
Art moderator for mediated Conversation - Special works of art	-	15 000
World Travel Market Africa 2019 - Sole Provider	-	65 301
Transactional Advisor for finalising feasibility studies work - Impractical to follow procurement process.	-	1 681 850
Repairing and maintenance of meter reading scanners - Impractical to follow the SCM processes	-	8 913
Assessment Report for Mosiane T V - Impractical to follow procurement process	-	6 400
Africa's Travel Indaba 2019-Sole Provider	-	57 069
Performing Artist -Special work of art	-	26 000
Programme Director & coordination of local Artist-Special work of art	-	50 000
Caseware Renewal MSCOA -Impractical to follow procurement process,because this is the company we procured the system and the contract is expired	-	166 144
Repair and Calibrate E Samplers-Impractical to follow procurement process.The bid was advertised two times and each time the result was non- responsive	-	33 350

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
28. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Educational Support Management Pax College The municipality provided Accommodation & catering) to the Capricorn District winter school which was arranged to take place at Pax College by the Capricorn-Impractical to follow procurement process.	-	195 000
Servicing & Maintenance of Hydraulic Rescue Equipment-Sole Provider	-	24 416
Procure Orgplus (Designing and maintenance of organisation structure And Jaws Softwares (screen reading for visually impaired)-Sole Provider	-	100 571
Procure Orgplus (Designing and maintenance of organisation structure And Jaws Softwares (screen reading for visually impaired)-Sole Provider	-	14 180
Payment for NLA Annual Subscription fees -Sole Provider	-	19 263
Repairing and maintenance of meter reading scanners-Impractical to follow the SCM processes because this is the company we procured the scanners for the meter readers	-	7 188
Licence renewal for meter reading system-Impractical to follow the SCM processes because this is the company we procured the scanners for the meter readers	-	68 241
	2 564 995	2 607 886

The following deviations were made on rate basis;

Radio Broadcasting - Special works of art
Newspaper Publishing - Special works of art
Subscription for newspapers - Special works of art

29. Contingent Liability

Claim for damages

The Municipality has a contingent liability of R 23 480 215 due to it being sued by service providers.

M Tech Rustenburg	-	16 175 619
In Sithu Consulting Engineers	258 051	258 051
Physon Business Solution (Pty) Ltd	1 191 614	1 191 614
Storm Fencing	585 023	585 023
Hulisani Vincent Sithagu	3 234 000	3 234 000
In Touch	3 516 400	3 516 400
Royal Haskoning	11 472 233	11 472 232
Mantella Trading 415cc and another	2 587 544	2 587 544
Dirk Jacobus Floris Venter	635 350	-
	23 480 215	39 020 483

Guarantee

Guarantee held by Eskom for the supply of electricity to Lebowa kgomo sewage plant amounting to R294 600

The Guarantor reserves the right to withdraw from the guarantee upon providing 3 (three) months notice in writing of its intention.

The guarantee is neither negotiable or transferable and is limited to the payment of money only.

30. Related parties

Relationships	Note 17
Compensation to councillors	Note 29
Contributions to organised local government	Note 9
Post employment benefit plan for employees of entity and/or other related parties	
Members of key management	Note 16

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Capricorn District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
31. General expenses		
Advertising	1 245 652	1 685 767
Auditors remuneration	3 461 767	3 230 027
Bank charges	187 506	141 427
Consumables	6 768 900	6 952 499
Fines and penalties	108 164	19 762
Conferences and seminars	2 658 263	5 315 078
IT expenses	3 779 250	4 277 145
Packaging	2 224 489	2 517 509
Protective clothing	87 880	-
Subscriptions and membership fees	3 405 065	3 034 220
Telephone and fax	1 853 040	1 856 931
Training	3 122 217	4 614 113
Travel - local	14 241 787	15 480 169
Bursaries	653 231	886 109
Other expenses	12 671 519	9 459 121
	56 468 730	59 469 877

32. Key sources of estimation uncertainty and judgements

In using estimates a number of assumptions are required. GRAP 1 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 1 and in discussion with the professional consultants.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the estimate and it is very important to monitor how this difference changes from one year's estimate to the next.

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Present value of defined benefit obligation
- Provision for doubtful debts
- Impairment of assets
- Provision for long-term service award and medical aid benefits

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of assets
- Provisions

33. Risk management

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The following are contractual liabilities of which the interest is included in borrowings:

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Operating lease liability	283 207	-	-	-
Trade and other payables	158 429 825	-	-	-

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand		2020	2019	
33. Risk management (continued)				
At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 948 162	-	-	-
Operating lease liability	212 296	-	-	-
Trade and other payables	116 880 590	-	-	-

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any surplus from non-performance by these counterparties.

Financial instrument	June 2020	June 2019
Cash and cash equivalents	360 786 777	256 567 347
Receivable from exchange transactions	47 294 237	43 808 215
Receivables from non-exchange transactions	31 569 311	23 237 157
VAT receivable	4 519 654	8 464 349

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

34. Impairment loss

Property, plant and equipment	(9 620 006)	(9 873 651)
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35. Changes in accounting estimates, errors and disclosure

The correction of the error(s) results in adjustments as follows:

Correction of error

Receivables from non-exchange transactions was overstated due to grants to local municipalities which were overstated.

Property, plant and equipment were overstated due to assets under construction which were overstated.

Payables from exchange transactions- correction of retentions.

Vat receivable was overstated due to transactions which were disallowed by SARS.

Receivables from exchange transactions were understated in previous years.

Depreciation - Correction of depreciation for computer equipments overstated in previous years.

Contracted services - correction of retentions.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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35. Changes in accounting estimates, errors and disclosure (continued)

General expenses - Correction due to disallowed input vat by SARS.

Debt impairment - Reversal of overpayment of salaries previously written-off.

Revenue from exchange transactions - Other Income corrected.

Reclassifications

Current provision/ Non-current provision were reclassified to post-retirement benefit obligations.

Payroll vendors were reclassified from receivables from non-exchange transactions to payables from exchange transactions.

Information technology expenses were reclassified from contracted services to general expenses as per trial balance

Cleaning expenses were reclassified from operational cost to contracted services as required by mSCOA.

Transport assets expenses were reclassified from operating leases to operational costs as required by mSCOA.

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior year adjustments and reclassifications:

Statement of financial position	As previously reported	Correction of error	Reclassification	Restated
Receivables from exchange transaction	41 978 835	1 829 380	-	43 808 215
Vat receivable	10 143 658	(1 679 309)	-	8 464 349
Receivables from non-exchange transaction	25 396 949	(2 150 191)	(9 601)	23 237 157
Property, plant and equipment	2 605 764 412	(82 422 415)	-	2 523 341 997
Payables from exchange transactions	(114 837 426)	(2 052 765)	9 601	(116 880 590)
Current provisions	(11 345 665)	-	11 345 665	-
Defined benefit obligation-Current	-	-	(11 345 665)	(11 345 665)
Non- current provisions	(46 518 617)	-	46 518 617	-
Defined benefit obligation- Non-current	-	-	(46 518 617)	(46 518 617)
	2 510 582 146	(86 475 300)		- 2 424 106 846

Statement of financial performance	As previously reported	Correction of error	Reclassification	Restated
Revenue	-	-	-	-
Revenue from exchange transaction- Other Income	1 680 378	(986 867)	-	693 511
	1 680 378	(986 867)		693 511
Expenditure	-	-	-	-
Employee related costs	(296 158 841)	-	(567 578)	(296 726 419)
Actuarial losses	(567 578)	-	567 578	-
Depreciation	(70 667 738)	990 585	-	(69 677 153)
Contracted services	(124 034 806)	(146 998)	3 729 253	(120 452 551)
Lease rentals on operating leases	(9 935 239)	-	4 217 529	(5 717 710)
General expenses	(51 448 604)	(74 491)	(7 946 782)	(59 469 877)
Debt impairment	(44 544 196)	(6 000)	-	(44 550 196)
	(595 676 624)	(223 771)		- (595 900 395)

36. Distribution Loss

Unit purchased (kl)	8 921 454	8 607 878
Units sold (kl)	(6 924 780)	(6 047 247)
	1 996 674	2 560 631

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Capricorn District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
36. Distribution Loss (continued)		
Average cost per unit purchases (cents per kl)	8.05	7.42
Net loss in rands	16 073 226	18 999 880
% Loss in purchases of water	19.36 %	25.71 %
37. Service charges		
Sale of water	71 288 454	70 928 518
38. Government grants and subsidies		
Operating grants		
Equitable share	588 933 000	547 862 000
Finance Management Grant	1 000 000	1 000 000
LG Seta Grant	128 928	-
Rural Transport Infrastructure Grant	674 831	2 422 000
EPWP Grant	3 858 696	3 642 000
Disaster Relief Grant	87 880	-
	594 683 335	554 926 000
Capital grants		
Municipal Infrastructure Grant	260 788 000	225 862 000
Water Services Infrastructure Grant	118 880 725	78 000 000
	379 668 725	303 862 000
	974 352 060	858 788 000
39. Other income - exchange		
Other income	439 834	693 511
40. Debt Impairment		
Contributions to debt impairment provision	46 676 508	44 550 196
41. Interest revenue		
Interest earned from outstanding debtors	14 110 448	18 038 581
Interest received - external investment	28 703 486	29 477 893
	42 813 934	47 516 474
42. Auditors' fees		
Fees	3 461 767	3 230 027
	3 461 767	3 230 027

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Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
43. Lease rentals on operating lease		
Lease rentals on operating lease		
Contractual amounts	5 198 995	5 717 710
44. Contracted services		
Presented previously		
Information Technology Services	5 666 876	3 767 723
Fleet Services	28 084 816	13 185 893
Other Contractors	73 100 356	103 498 935
	106 852 048	120 452 551

45. Events after the reporting date

The government has declared the State of Disaster for COVID 19 pandemic with effect from the 26 March 2020. The COVID 19 pandemic will however not result in the adjusting events as all the expenditures incurred will be reported in the financial year in which they occurred. The State of Disaster for COVID 19 has been extended until 15 November 2020.

46. Comparison with the Budget

Material differences between budget and actual amounts

The comparison of the Municipality's actual financial performance with that budgeted is set out in the statement of comparison of budget and actual amounts.

The budget is approved on an accrual basis using a classification based on the nature of expenses. The approved budget covers the period from 01 July 2019 to 30 June 2020. The budget and accounting basis are the same.

Changes from the approved budget to the final budget

The changes between the approved and final budget are as a consequence of adjustments and roll-overs of grants

Variances of 10% or more are explained as set out below:

Statement of Financial Performance

Interest earned outstanding receivables (+100%) The municipality does not budget for interest on outstanding receivables.

Other Income (-67%) Reduction in the amount of tender documents sold.

Grants and subsidies received - Capital (-22%) Capital projects were underspend due to slow implementation of WSIG projects as a result of COVID-19.

Donations (+100%) Donations not budgeted for.

Contracted services (-21%) Contracted services were under spend due to cost containment measures and Covid 19.

Impairment loss (-44%) The impairment loss is less than anticipated.

Transfers and subsidies (-11%) Grants transfers were underspend due to the local municipality not achieving SLA requirements.

The following items were not budgeted for and will have a 100% variance:

* Loss on disposal of assets

Statement of Financial Position

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
46. Comparison with the Budget (continued)		
<u>Inventories (-27%)</u> Increase in items used during the year.		
<u>Receivables from non-exchange transactions (+16%)</u> Increase in receivables from non exchange transactions due to local municipalities not paying debt due to CDM.		
<u>VAT receivable (+100%)</u> VAT not budgeted for.		
<u>Prepayments (+100%)</u> Prepayments not budgeted for.		
<u>Receivables from exchange transaction (-59%)</u> Increase in the allowance for debt impairment.		
<u>Cash and cash equivalents (+191%)</u> Conditional grants not spend.		
<u>Intangible assets (-68%)</u> No spending on Financial system that was budgeted for		
<u>Unspent conditional grants and receipts (+100%)</u> Budget was based on 100% spending of Grants		
<u>Operating lease liability (+100)</u> Operating lease liability not budgeted for.		
<u>Payables from exchange transactions (+38%)</u> Increase in trade creditors invoices received after year-end.		
<u>Employee benefits obligations Non- current (+61%)</u> Due to Covid, employees accumulated more leave than usual.		
47. Loss on disposal of assets		
Property, plant and equipment	(159 755)	(427 740)
48. COVID 19 Expenditure		
Hand Sanitizers	15 353	-
PPE and hygiene products	1 196 951	-
Cloth masks	71 050	-
Sanitisation wipe stands	25 300	-
A2 posters for hand wash	36 960	-
Identification cards for essential workers	37 400	-
Catering for Covid-19 District Command Council meeting	17 525	-
Non-contact forehead Infrared Thermometers	19 000	-
	1 419 539	-
49. Donations		
Donations	546 000	-
Revenue received for donation of land by Blouberg municipality.		

TCN